



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

EXECUTIVE OFFICE

December 19, 2002

In reply refer to: TMC-Ditt-2

Dear Programs in Review Participant:

Subject: Close out of the public process and final report on the Transmission Business Line's Programs In Review regarding expense and capital spending - Fiscal Years 2004 and 2005

This report summarizes Bonneville Power Administration's (BPA) discussions with customers during the Transmission Business Line's (TBL) Programs in Review (PIR) process regarding proposed program level expenditures for Fiscal Years (FY) 2004 and 2005, and includes TBL's program level decisions.

Five regional workshops were held during July 2002 to discuss TBL's proposed capital and expense program levels for these two fiscal years. At the customers' request, an additional workshop was held in Portland, Oregon in September so staff could provide details of the proposed program levels.

During the course of these workshops, TBL continued to evaluate spending levels for both capital and expense programs to be as efficient and cost effective as possible, while still maintaining the program levels required to operate a reliable transmission system and meet the challenges of a competitive marketplace.

The PIR process looked at expense and capital levels for a three-year period covering FY 2004-2006, so that TBL would have the flexibility to set rates for a one, two or three year rate period. A two-year rate period is proposed, so the PIR decisions presented cover two years, FY 2004-2005, of TBL expense and capital spending.

At the initial July PIR workshops, the TBL proposed an average annual expense estimate of \$374 million for the FY 2004-2005 period. However, based on discussions with customers and TBL's subsequent internal review, TBL has reduced overall expenses by about \$17.5 million annually. The TBL's proposed capital program included spending levels of \$327M and \$280M for FY2004 and FY2005, respectively.

Reducing spending levels

In the July workshops, TBL demonstrated how we substantially reduced capital and expense spending over the past two years. TBL has made significant progress in continuing to control its spending through management and efficiency efforts. TBL also outlined the issues currently facing the transmission industry and how these issues could drive future costs upward.

Over the past 10 years, TBL has cut back on transmission upgrades and expansions, using innovative technologies and techniques to meet customer needs and market demands. This technology allowed us to absorb growth while still maintaining reliability. But, it also meant that TBL had to accept more risk and push our system harder.

Due to load growth throughout the region and increased transactions enabled by market deregulation, the operating margin we once had is now gone. The system is approaching capacity and significant constraints could begin to affect access to the system.

In the coming years, TBL must look at ways to build new lines and upgrade existing transmission to maintain the transmission system's adequacy, reliability and availability. This must be accomplished in the face of increased regional load growth, congested pathways, a greater number of transactions and the related system improvements required to meet these needs, while working to integrate additional generation into the system.

Capital program

Comments received from customers were helpful to us in finalizing our proposed spending levels for the coming years. Comments were generally supportive of spending for proposed infrastructure improvements to continue to maintain reliability of the transmission system. However, this support was conditioned on receiving an assurance that TBL would manage the risks of building the infrastructure projects as related to reliability and that new generators, who directly benefit from the construction of new infrastructure, would prepay for those improvements to the system. We also received some comments about the need to reduce planned program costs while assigning costs directly to any party who benefits from the planned actions. Other comments questioned rising costs in certain areas, such as implementation of a Regional Transmission Organization (RTO), accommodating deregulation, and shifts in redispatch charges.

During the discussion on program levels, some policy issues arose. One focused on the need for proposed transmission improvements and additions, and specifically asked for clarification on who would pay for transmission investments under various construction scenarios. We were also asked about TBL's policy in relation to non-federal funding for infrastructure. Some comments on this issue had to do with practices already decided by BPA, such as those covered in the TBL's Direct Assignment Guidelines. Other comments addressed whether TBL's list of infrastructure projects was still relevant in today's quickly changing electricity industry and how customers could be assured that there is adequate evaluation of project need.

In response, TBL is continuing to move forward on several of the proposed infrastructure projects for varying reasons. These include three proposed transmission line projects to relieve congestion and maintain reliability of the system: Kangley-Echo Lake 500-kV Transmission Line, Shultz-Hanford Area 500-kV Transmission Line, and Grand Coulee-Bell 500-kV

Transmission Line (Eastern Washington Reinforcement). Work is continuing on two other projects, the installation of the Shultz Series Capacitors and the Celilo modernization project. Both of these projects will reinforce the existing transmission system without building new lines. Two other proposed transmission infrastructure projects to enable integration of new generators would only move forward if non-federal funding was secured. These projects are McNary-John Day 500-kV Transmission Line and the Southwest Washington-Northwest Oregon Reinforcement.

We are presently seeking payments in advance from generators in return for future transmission credits. This approach assures that BPA and the region do not run the risk of having stranded investment if the generators decide to delay or cancel their projects. We will continue to act consistent with FERC's policy as it evolves. We will also continue to monitor the situation to understand how this affects generation construction.

We are continuing to investigate how to effectively integrate non-transmission alternatives into our transmission planning process. Before TBL decides to build a line, we want to make sure we have evaluated all feasible alternatives. This could include non-wire alternatives such as energy efficiency programs, demand reduction initiatives, and pricing strategies, among other options. We are currently seeking input from a regional stakeholders group as part of our normal planning process to determine how to best accomplish this goal. We expect to hold our first discussion in early 2003.

I want to assure you that TBL is committed to identifying regional reliability issues, proposing solutions, and using all available mechanisms to find economic and equitable solutions to maintaining the transmission system. As part of this commitment, TBL will continue to facilitate the regional technical dialogue through the established Regional Technical Review Teams to better define the prioritization, costs and need for transmission projects. Thanks to this effort, TBL and the region have developed an annual review process to update the proposed transmission project list and assist in keeping costs under control.

Expense program levels

TBL is holding operating cost increases to a level that are less than the rate of inflation. In order to keep program levels as low as possible, TBL has cut about \$17.5 million per year in operating costs. TBL must also recognize cost increases of \$2.3 million associated with adjusted employee benefits loading rates. These changes will result in an average annual operating expense budget of \$356.5 million. These cuts will be difficult, but TBL is committed to making reductions in labor, materials, and contracts to achieve the proposed spending levels. By operating program, the changes include:

Transmission System Maintenance	(\$7.6 million)
Transmission G&A	(\$5.0 million)
Transmission System Operations	(\$2.6 million)

Transmission Support Services	(\$1.8 million)
Transmission System Development	(\$0.9 million)
Wheeling/Leases	\$0.1 million
Transmission Scheduling	(\$0.2 million)
<u>Transmission Marketing</u>	<u>\$0.6 million</u>
Total Reductions	(\$17.5 million)

Participation in RTO West

We received several comments from customers about the level of BPA's involvement in RTO West. We continue to see RTO West as a viable alternative for the future if certain conditions are met, and therefore, will continue to allocate resources at current levels to participate in its formation. The decision on whether to join an RTO will not be made until after a full vetting of the issues in a different public forum. Although one customer suggested BPA wait and let an RTO make all the needed infrastructure improvements, we must continue to meet our obligation to allocate resources to plan and build needed transmission infrastructure. Since we have yet to decide whether BPA would join an RTO, we must continue to make the necessary investments in our system. We are committed to participating in the development of an RTO that works for the Northwest. Toward that goal, we included RTO West costs for FY 2004-2005 at \$2.6 million a year.

Issues to be covered in the rate case

Certain issues that were identified during the PIR process such as redispatch expense and revenue financing are considered rate case issues and therefore will be discussed and covered in that forum.

Finalizing TBL program levels

Today TBL faces critical issues:

- Operating and maintaining its aging transmission system
- Building a business framework in a changing environment
- Constructing transmission infrastructure to meet load growth
- Determining contractual reliability and resource integration demands
- Maintaining a skilled and trained workforce
- Access to limited capital borrowing authority.

The proposed TBL capital and expense spending levels for FY 2004-2005 reflect TBL decisions on how we will move forward to resolve these critical issues. Our direction will continue to be influenced by feedback from our customers and constituents. Through the PIR process, you have helped us hone our proposed spending levels and better understand alternatives available to us.

We appreciate your comments and input. We remain committed to these open public processes where ideas can flow freely for the region's benefit. Thank you again for your participation in TBL's PIR process.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen J. Wright". The signature is fluid and cursive, with the first name "Stephen" and last name "Wright" clearly distinguishable.

Stephen J. Wright
Administrator and
Chief Executive Officer

2 Enclosures:

Appendix 1 – TBL Expense Levels – Programs in Review

Appendix 2 – TBL Capital Program – Programs in Review

TBL Expense Levels - Programs In Review (\$ in thousands)

Program & Other Operating Costs	Averages Across FY 2004-05		
	Initial Proposal	Final Proposal	Savings
Transmission G&A	22,701.3	17,619.4	(5,081.9)
CSRS Pension Expense	14,350.0	14,350.0	0.0
Transmission Marketing	15,004.1	15,153.7	149.6
Transmission Scheduling	8,705.9	8,374.6	(331.3)
Transmission System Operations	40,563.0	37,420.7	(3,142.4)
Transmission System Maintenance	88,633.8	80,203.6	(8,430.2)
Transmission System Development	13,885.4	12,942.3	(943.1)
Wheeling/Leases	5,973.8	6,105.4	131.6
Environment (Includes Environment Org)	4,538.9	4,499.4	(39.5)
Transmission Support Services	19,603.3	17,503.7	(2,099.7)
Total System O & M	233,959.4	214,172.7	(19,786.7)
Between Business Line Expenses			
Ancillary Services	71,495.3	71,495.3	0.0
Corps/Bureau/Network/Delivery Facilities	4,084.0	4,084.0	0.0
Station Service	1,723.6	1,723.6	0.0
Total BBL Expense	77,302.9	77,302.9	0.0
Corporate Expenses			
Legal Support - Expense	2,023.0	2,023.0	0.0
Shared Services Costs	37,355.0	37,355.0	0.0
Corporate Overhead Distributions	23,360.0	23,360.0	0.0
Total Corporate Charges	62,738.0	62,738.0	0.0
Total Transmission Operating Expense	389,000.3	369,213.6	(19,786.7)

NOTE: Program reductions shown above will be impacted by a \$2M increase due to an under-collection of employee benefits expense. Other increases such as a reallocation of Bonneville Enterprise System costs, will be absorbed.

TBL - Capital Program
FY2004 and FY2005 Projections
(\$ in Thousands)

	G-PROJECT	Need Date	FY 2004	FY 2005
MAIN GRID				
Project Name				
Puget Sound Area Additions	G-1	2004	7,368.7	0.0
Schultz-Wautoma 500 kV line	G-2	2004	50,138.9	0.0
McNary-John Day 500 kV line	G-3	2004	0.0	0.0
Low Mon-Starbucks 500 kV	G-4	2004	0.0	10,904.7
McNary-Smiths Harbor 500 kV	G-5	2004	0.0	0.0
Schultz 500 KV series caps	G-6	2003	3,000.1	0.0
Echo Lake-Monroe 500 kV	G-8	2007	0.0	5,414.4
Coulee-Bell 500 kV (WOH Ph 1)	G-9	2004	61,255.2	0.0
Line Relocation (Nisqually Reservation)			0.0	0.0
Line Relocations on Tribal Lands			3,158.0	3,248.7
Columbia Falls - Kerr Reconductor			0.0	0.0
Seattle Area 500/230 kV Bank	G-11	2006	0.0	1,082.9
Pearl 500/230 KV bank	G-10	2003	0.0	0.0
Chemawa 230/115 kV Bank			0.0	0.0
Santiam-Bethel Tap 230 Line #2			0.0	0.0
Olympia 230/115KV Bank #3			0.0	0.0
Olympia-Shelton 500KV	G-12	2006	252.6	10,828.9
Fairmount Shunt Cap			0.0	0.0
Shelton-Fairmount 230KV line			0.0	0.0
Hanford-Ost. tap to Big Eddy	G-14	2008	1,052.7	3,248.7
N. Cross Cascades SC 500 KV			0.0	5,414.4
Ponderosa 500/230 KV bk #2			0.0	0.0
North Noxon Reinforcement (WOH Ph1)	G-20	2007	631.6	7,580.2
L Goose-Starbucks 500 kV (WOH Ph2)	G-17	2008	0.0	0.0
Big -Eddy-Ostrander 500KV			0.0	0.0
McNary-Brownlee 230 KV (PNW-ID)	G-19	2006	6,316.1	33,569.5
Hatwai-Lolo 230 kV (PNW-ID)	G-18	2007	0.0	0.0
McNary-Tap on Ashe-Marion 500 kV	G-16	2007	421.1	6,497.3
N. Idaho Reinforcement (Lib-Bonners)	G-15	2007	0.0	584.8
Walla Walla 115/69 Bank Repl			0.0	0.0
Santiam-Chemawa 230 Line#2			0.0	0.0
Other Associated gen Integration			3,158.0	4,331.5
NERC Criteria Compliance			2,105.4	2,165.8
Fire Suppression			0.0	0.0
System Reactive Facilities			5,000.0	5,000.0
Various Additions			5,000.0	5,000.0
Total Main Grid			148,858.4	104,871.7
AREA & CUSTOMER SERVICE				
Project Name				
Albany-Eugene Rebuild			0.0	0.0
Kitsap Penin Reinf			0.0	0.0
Red Mountain 115 kV Sub			0.0	0.0
Walla Walla 115/69 Bank Repl			0.0	0.0
Franklin Area Reinf (recond)			0.0	0.0
SW Ore Coast (Bandon-Rogue)			315.8	1,840.9
Goshen-Drummond Upgrade&Tx			0.0	0.0
Trentwood 230/115kv bk/line			0.0	0.0
Fairview SVC			0.0	0.0
Vintage Valley			0.0	0.0
Port Angeles SVC			0.0	0.0

TBL - Capital Program
FY2004 and FY2005 Projections
(\$ in Thousands)

	G- PROJECT	Need Date	FY 2004	FY 2005
Harney system 138 kV upgrade			0.0	0.0
Driscoll/Clatsop 230/115KV Tx			0.0	0.0
Longview 230/115-kV Bank #2			105.3	541.4
Redmond 230/115KV Bank #2			0.0	0.0
Palisades-Snake River 115 line			0.0	108.3
Palisades-Goshen 161KV line/TX			1,052.7	4,331.5
East Omak 230/115KV Bank			0.0	0.0
Libby-Bonnors Ferry 115 Recond			0.0	0.0
Libby-Troy Line Purchase			0.0	0.0
Minidoka Substation Reguild			0.0	0.0
Victor Tap - Goab Switch			0.0	0.0
Alvey-Eugene 1 & 2 TT Addition			0.0	0.0
Addy Sub - Retire Delivery Facilities			0.0	0.0
Potholes Sub - 115KV Bus Tie Addition			126.3	0.0
Duckabush Sub - Repl. Transf.			0.0	0.0
Hampton Sub - Repl. Transf.			0.0	0.0
Vintage Valley- 230 & 115 KV Term. Add.			0.0	0.0
Red Mtn.- 2-115 KV Terminal Add.			1,052.7	0.0
McNary Sub - 115 KV Term. (Benton PUD)			421.1	0.0
Metering Data Upgrade - BPA System			1,052.7	0.0
White Bluffs-Richland -relocate 1 mile			105.3	0.0
substation X (U.S. Navy)			0.0	0.0
Misc. Line Upgrade/Cap Additions for Wind Projects			4,210.7	3,032.1
Customer Service Items			2,947.5	3,248.7
Total Area & Customer Srvc			11,389.9	13,102.9
UPGRADES & ADDITIONS				
Project Name				
System Controls			10,526.8	12,994.6
Business System Develop.			8,474.0	8,663.1
Trans. System IT Develop.			4,210.7	5,414.4
Fathead Valley Reinf (RAS)			0.0	0.0
Fiber Optics (Incls Terminations)			13,684.8	12,994.6
Misc Line & Sub Additions			3,158.0	3,248.7
Total Upgrades & Additions			40,054.3	43,315.5
SYSTEM REPLACEMENTS				
Project Name				
Nonelectric Plant Replcmts			6,316.1	6,497.3
Total M3C, M4C, M5C, M6C			13,684.8	12,994.6
Celilo upgrades	G-7	2003	6,642.4	0.0
Tools and Equipment			5,500.0	5,000.0
Emergency Funds			10,000.0	10,000.0
Total System Replacements			42,143.2	34,492.0
ENVIRONMENT				
Project Name				
Total VR2C, VR4C, VR7C			7,368.7	5,414.4
Cap ADP Equip--Environment			0.0	0.0
Total Environment (PP&A)			7,368.7	5,414.4

TBL - Capital Program
FY2004 and FY2005 Projections
(\$ in Thousands)

	G- PROJECT	Need Date	FY 2004	FY 2005
ALL OTHER DIRECT CAPITAL				
Project Name				
Capital ADP Equipment			736.9	758.0
Retirements and Sale of Facilities			5,000.0	5,000.0
Completion of Prior Yr Items			100.0	100.0
Cap-to-Exp Adjustments			(3,000.0)	(3,000.0)
Undistributed Funding (Reduction)			0.0	0.0
Total All Other Capital			2,836.9	2,858.0
SUB TOTAL TBL CAPITAL (DIRECT)			252,651.4	204,054.5
INDIRECTS				
TSD Program Indirect			20,802.4	21,322.4
TSD MS&A			8,405.0	8,615.1
Support Services Cap Distribution			10,086.0	10,338.2
Total TBL Indirects			39,293.4	40,275.7
AFUDC				
AFUDC			22,957.0	23,148.0
Total AFUDC			22,957.0	23,148.0
CORPORATE OVERHEAD ^{1/}				
Corporate Distributions			7,080.0	7,300.0
Corporate Shared Services			9,910.0	10,380.0
Corporate Legal Support			98.2	100.7
Total Corporate Overhead			17,088.2	17,780.7
SUB TOTAL TBL CAPITAL (INDIRECT)			79,338.6	81,204.4
TOTAL TBL CAPITAL			331,990.0	285,258.9
Non-Borrowing Authority Items				
Plant Funded from Revenues				
Paul-Troutdale 500 kV	G-13	2005	51,581.1	54,761.6
McNary-Smiths Harbor 500 kV	G-5	2004	9,474.1	0.0
McNary-John Day 500 kV line	G-3	2004	47,370.4	0.0
Total Plant Funded from Revenues			108,425.5	54,761.6
Projects Funded in Advance			20,000.0	20,000.0
Smiths Harbor Sub/Line			5,600.0	0.0
Total Non-Borrowing Authority Items			134,025.5	74,761.6
TOTAL TBL CAPITAL			466,015.5	360,020.5